

Company Name: Trivago NV (TRVG)

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<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

Thanks, everyone. Thanks for being here at the 46th Annual Cowen TMT Conference in New York. I'm Kevin Kopelman, I cover online travel for Cowen. We're excited today to welcome Axel Hefer, CFO of Trivago; and also Matthias Tillmann, Trivago Investor Relations and Finance.

Trivago is a leading global hotel search company generating estimated €8 billion in bookings for its advertisers over €1 billion net revenue to Trivago last year based in Dusseldorf, Germany. Axel joined Trivago in 2016, before that was CFO and COO of the e-commerce company Home24 AG background private equity. We kick it off with a few questions. We'll have a little bit of time for audience Q&A, but please feel free to jump in as well. If you raise your hand, try to get your question in.

Just to start off big picture Axel, Trivago is the newest of the major global brands in travel. Since 2010 you've grown basically from scratch €2 billion in revenue then a pioneer in metasearch TV advertising brands known all over the world for hotel deals and you joined Expedia little over five years ago. Looking at the next five years where do you see Trivago going from here.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So over the next five years, the market will obviously continue to develop and what that means that any market that is developing basically both the products will become more differentiated over time and the customer segments will become clearer, because more and more people would have been online and booked online for a longer period understand better the different value propositions of the different players.

And there – where we basically said, as we said where the uses that that focus on really the deal and that focus on finding the ideal or talent, don't really focus that much on the brand. So they don't care whether they book with booking.com or Expedia or hotels.com or whoever, but they are very focused on the offering of such. And for them, I think that already today we've got the best to, to navigate through all the different offers and that will become obviously clearer and clearer. And those are the users that we want to own and five years from now.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

Okay. Let's talk about recent developments, you noted that there was a new drop off and bid levels from the major online travel agencies in April. What have you seen in May, in the latest month and has that compared to what you'd seen in April.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So I would not comment on May. But in general what you see in the industry that there is more focus on profitability. And so I guess no better than off I guess because you talk to all the companies and all our competitors and customers, but it seems to me more focus on profitability, which obviously changes the optimal bid if you don't focus on growth, but more on profit, there's a different optimum in your bid optimization and that something that we have seen. What that means to us is that, that obviously we need to adjust to the current situation. I mean that might change at some point in time and it could be sooner or later. And I believe that there is still, there are enough reasons that enough players will focus on growth at one point in time, but obviously you can't control that point in time.

It's an individual decision off of each company. And so what we – and the short-term can do is obviously, we every day have to decide what is the right tradeoff between profitability and revenue growth like everybody else I guess. And so for us it is, I think it is more direct, because we are reinvesting basically the profit and to growth only focus on growth. And so I guess the amplitude is higher than for OTAs.

And when you look at the first quarter there, we focused on stabilizing the business on topline, development, because of the volatility that we experienced in Q3 and Q4 and the complications that actually come with it. Both in terms of inbound the more volatile the market – our marketplaces, the more difficult it is for advertisers to optimize their bids obviously, but also for us on the outbound side the more volatile the system is the more difficult it is for us as well to optimize on our outbound spend. And so stability was the key focus in Q1 and when we think about this tradeoff, the plan for the – I guess for the next couple of quarters would be more to towards profitability, yeah.

But that's what we can control in the short-term and the long-term obviously, there are various things that that we are working on. But in the short-term if you have got to change in and focus off some of your customers, that's basically what you can do to react.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

So you feel that in the first quarter, it was sort of stabilizing and since then you're more focused on getting the profitability right. Did I understand that correctly?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

I would say that for the rest of the year, we have planning to focus more on profitability. Yeah, that's why I said, yeah.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

So let's talk about some of the key initiatives just drilling down and more into the things, you talked about recently. The first one was alternative accommodation. So how many alternative accommodations of the different types you know homes, vacation house, apartment, things like that you have on Trivago today. And when you think you can have a bigger impact and when do

you think you can get – you can extend the Trivago brand? And would this be the end of hotel Trivago?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So many questions, so the number that we disclose was more than 300,000. But I think the number as such is not the only proxy for the progress that we are making, because the number as such you can bring a very, very quickly. But the key thing is how can you improve what the user is looking for, how can you make the search better by offering more alternatives in a meaningful way. And this is the meaningful way is actually where the progress is coming in and where the work is going into. And that's in last time, when we spoke, when we talked about that's why we've got a plan where we gradually increase the number and making sure that we can display gradually changing inventory makes in a meaningful manner.

Just the number as such, you can change and bring up very quickly, but that's not what really makes the different. Overall, how big of an impact would it really make, what share of revenue would you generate through alternative accommodation that obviously would go up. But that's again not the only metric to look at, because the thing is do you have a complete value proposition. It's even in today's business, when you look at the long tail hotels is not that they contribute a very significant part of your revenue. But there are obviously still important because if you go to New York but through whatever village in Germany and you don't find anything that obviously it hurts our reputation and our brand.

And it doesn't mean that you go there that often, but for those searches you still want to be relevant and you want to have a good customer experience. And this is the same is true for alternative accommodation obviously it helps you in particularly in those destinations to give more offerings are in times of trade fairs. But also for different needs that can be served better by alternative accommodation. So we're happy with the progress that we've made so far, but it is more complex than just looking at the revenue share and the share number of apartments or vacation rentals that are live.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

And when you thinking about these new properties, is the consumer really understand or what kind of terminology are they using to the end users everything at hotels basically do you need – or do you need to go and really tell them we have everything not just hotels.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Yeah. In the communication, and so far it is focused on hotels. So our communication is 100% focus on hotels. And I would tell as a bit more than just an hotel, I mean hotel is a kind of experience where you don't have to bring a towels and it's a service, service accommodation in a way. So I think the current positioning of the brand covers more than just hotels already. It wouldn't cover the hotel long tail, so private apartments. And yeah, but I think it will take quite some time and there is in particularly the revenue generating part of alternate accommodation is closer to hotels than you might think.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

Okay. So another key initiatives that you've talked about as diversification of ad channels. Where do you emphasizing more, where you – what are you emphasizing less.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So if you split our marketing activities again basic in two areas, branded versus performance marketing and in brand that we are predominantly active in on TV now. So that is for us on the branded side by far the most important channel. And what are there the alternatives all the important channels that we have grow an importance online video as for sure, a channel that becomes more and more important, in particular, in the younger age group. But it is also a channel that is not as developed neither from our internal capabilities experiences nor from the products. Its actually there is still a lot of an experimentation going on, where exactly do you have a time how exactly. And so there's a lot of work to be done, but strategically a very important channel, that's for sure. I would say on the branded side the most important diversification. On the performance marketing side, when you look at the existing channels the one that is by far the biggest that we are not – we under represented is Google Hotel Ads. And so there we are scaling up our test there.

And that's in the next 12 months, I would say an opportunity. So to be more balanced, because we are relatively speaking over presented on [indiscernible] (11:49) presented on Google Hotel Ads. There are other channels in performance marketing that have lot of potential as well. And we are obviously working on them, but you can't for suggest. So the channels need to develop as well in parallel. But I would say, those are probably the two that are standing out.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

What is your initial experience than on Google Hotel Ads, did you find it? You're able to give a – or you're able to give the consumer the right, what they're looking for in that format and as they're kind of ROI outlook compare on that compared to AdWords?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Yeah, we think that we've got the best search product. So, of course, we do. On the ROI, you have to be a bit careful, when you're still testing on phase. Because it's very – it's much, much easier to have a certain profitability on a very limited amount of inventory versus before the inventory. And so there I think, it's bit too early to comment on that, but I mean so far the tests are going well.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

And just for the audience I do want to clarify that that ad words you are talking about the ads, and basically the top of the Google search results and the Google Hotel Ads and the price ads kind of metasearch type ads. What about the overall split. In the past you've been – you've really

managed to something about 50-50 split between the Brands category and the performance ads categories. Does the 50-50 split still makes sense or is that amount of change.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

The 50-50 is the broad target that we've had to for quite some time and I think that still makes sense. And so there we haven't really changed our view obviously there are some volatility around that. But that hasn't really fundamentally changed.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

And if anyone has a question please feel free to jump in. So I want to go – I want to dig into one of the big controversies, things that people have talking about, which is – this the idea advertiser friendliness, who's doing the most for their advertisers to get them to spend them us. And so for Trivago, you have two very large advertisers. And then a larger group of smaller advertisers many of the revenue base. How advertiser friendly is Trivago. Where do you feel like you're doing well and where do you feel you could improve. And then we want to – and we have some kind of follow-up taking on that.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

How advertiser friendly are we. I mean, obviously, we are very friendly to our advertisers, because that's how we generate revenue. So that's a huge focus. And I guess, there are some points that would dig into deeper that you've got on your list. That are a bit more complicated, but in general I mean what is important for us is not necessarily whether one advertiser has a very high or very low share. I mean, that's the outcome of the auction and that's – in a way his own decision depending on his own profitability target and need for full volume. What is important to us is that the auction is very tight. And so that is where obviously, there are different levers for the different advertiser, some advertisers do benefit from tools like our automated bidding, where we bid on their behalf, other advertisers don't benefit from it.

Tools like our check out product Express Booking, some advertiser benefit from it, others don't benefit from it. And so I guess for some advertisers it is tougher to add something incrementally than for others. And but that doesn't mean that we are discriminating one against the other. It's just what we can do to increase the bid intensity is different for different advertisers.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

Yeah, so let's jump into some other things that we've pulled out here. So mobile bidding, one of your competitors in metasearch is monetizing their phone ads that about 40% of the rate of their large screen ads. Trivago doesn't have that kind of – it doesn't allow specific bidding for phone ads versus large screen ads. Does it make sense for you to start doing that? And is it something that that advertisers are asking for.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So Any new bidding dimension. I mean, you will – you cannot reason your bidding dimension, if it creates overall more value. And if you have a chance of capturing part of that value that you're creating out. So that's the high level what – how you look at it. And do you create more value. There the question is not so much whether mobile conversion is a lot lower than desktop conversion, but more is there a fundamental difference in that conversion by the two devices for a large amount of the advertisers.

And if that word to be true than that is obvious something that would create a lot of value, because one advertiser would only focus on mobile, the other one on desktop, the conversions would be dramatically different. And then the second question is, can you capture it, I mean, for mobile versus desktop you basically just double the number of auctions. But there are other parameters like whatever age bracket where you could easily think about five, six, seven times more actions. And the smaller – the more auctions you're running the bigger actually the advantage of the larger players becomes, because they have more data points. And there is obviously a diminishing value of more data. And so the smaller the auction is the bigger that benefit is.

Specifically, on the mobile side, we don't see the first condition that's to a substantial amount. So we don't see that there are very dramatic differences in conversion – in a relative conversion for the different devices. And as a consequence, we haven't introduced that dimension. So they are – there are other dimensions that are more obvious. But we are constantly looking at adding dimension – look different dimensions and whether they would make sense on us.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

Yeah. Our advertisers asking for it – for mobile.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Yeah, it's not on top of the list.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

What is on top of the list?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

I don't tell you.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

What already think in the most obvious dimensions that you consider adding?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

I mean, when you look at – in a way, when you bid a CPC, you want to get a value for that. So anything that has a direct impact on the conversion, which would be mobile versus desktop, but also on the value as such as a big impact.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

Let's talk about a couple of other areas that aren't big dimension. So next one, we're looking at it search ad competition. So you've call this negative spillover effects. So basically the idea that you, there is some channel conflict and that you are acquiring traffic that sound Google and competing to some extent with your own advertisers. One of your advertisers seemingly alluded to this. To what extent do you think that this is still a problem today, because the market has change over the last six months with the current – your current practices and current bidding levels?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Yeah. So I think, it's a matter of degree. So I mean, they were times where I think you could argue that was a bigger problem than it is today. There's always some – I mean, with these kind of industry structure, there is always some conflict – potential conflict in there. But at the right, bid level, I think that it's not really significant. And the reason, why it's not significant is that you've got different positioning. So if you think about the AdWords auction, people that know our brand – know what kind of experience they're going through. And that is different than for the other brands. It's not necessarily the same user that is looking for the identical experience. Obviously, at a – if you're very, very aggressive than, you start to capture users that naturally would go somewhere else. And that's why we have the conflict, but at the current levels, I don't think it's a significant issue anymore.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

Okay. Another one is landing page kind of penalties, which is part of your larger relevance assessment algorithm. But basically, the idea that you're encouraging advertisers to send people directly to the booking page rather than show them a list of hotel results, one of your largest advertisers has clearly been upset by this. But it should also help out, the group of smaller advertisers and you've also said that, it's good for the user experience. So are these penalties for the – that type of landing page having the intended effect than how are you kind of measuring and thinking about that?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Yes. So I mean, it's something that we introduce end of 2016 and there is definitely some progress and how exactly we are measuring it, how it calibrating it et cetera. What they mentioned there about our criteria we are taking into accounts. So I would say that, what we do today is better and more advanced than what we did when we introduced it. And that's why it's not and you can't really compare it necessarily it's still the same thing, but I think it's now better calibrated. And what do we want to calibrate there. I mean, when you do consumer research and ask you this, okay, what do you prefer, the data that we're looking at says very clearly, okay, as a

little touch point is possible, which intuitively makes sense. On the other hands, for certain advertisers there was obviously a benefit in deviating from that. So because you can leverage better of the breadth of your inventory versus others and that's what you need to balance. And I think right now, we've got a good balance there and where clients happy with the results.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

So moving on to – well just – I'm just going to stop for a second. We have few more minutes. Anyone in the audiences have any questions, you like to jump in or what. So we move on to competition, two other big – other players in hotel metasearch, Google, TripAdvisor, they both revamped their interfaces over the past 6-12 months. How do you measure yourself against the competition and what you see as your key advantages in key differentiators?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Slightly different for the two different players, I guess both have – obviously, both have a slightly different position to us and then for them it's again different. I mean, to us somebody who comes to our side looking for a very lean, very optimized experience that gives you very quickly what you're looking for. The traffic from Google is obviously the starting point for basically everything. And then Google can decide how many users are pushed towards one advertising product or the other. So it's not your choice, you can't necessarily control it. And the visibility is changing and obviously, and that's influencing your decision. So it's slightly different. So it's a more of the starting point that need to make a conscious decision to deviate from that to come to us. So the intent, I think is different. With TripAdvisor, it's similar, because lot of their traffic is coming from review users obviously, and then part of that is then funneled into their competitor and competitor products to us, which is again slightly different. For us everybody coming to our side, once you used that specific product and it's not channeled in from other parts of the website.

In terms of product features, we think that we've got the most optimized site for that specific user. Somebody who want to compare, once you get all the information and do that very quickly and very efficiently and that the other products that are slightly different focus, but obviously, they are improving. And we are working on improving our product as well. And I think that's natural competition.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

And what about different revenue streams TripAdvisor actually has started selling a sponsored listing at the top of their search results. Is that – does that something that makes sense for Trivago to monetize the website in different ways like that and take advantage more – of the sort order more than you are now?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Yes. I mean, I think we abandoned display ads in 2007 or 2008. But we need to look it up, a very long time ago, and said, okay, we want to build a product exactly that just said. That is just



focusing on finding – and not extracting the user and finding more as users looking for as quickly as possible. And so that would do within a way violate that guiding principle. I'm not ruling out that it could be beneficial in the short term financially. But it would undermine our positioning and our value proposition and right in way, our promise to our users. So it wouldn't be a natural thing for us to do. But – yes, I get the benefit is that you probably can in the short term to generate additional revenues.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

One thing, I want to touch on – we have one of the – we have the largest OTA in Latin America here at the conference and obviously, Latin was had some big kind of macroeconomic shocks recently. How do you react to it? What you see going on there and how do you react to that kind of change? How quickly do you change your advertising practices and things like that?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Yes. I mean in general, there are – on the performance marketing side, you can adapt everyday and that's, what I said earlier, obviously, you always need to balance your revenue versus your profitability every day. And if there are big changes in the market then you need to decide whether you want to focus on one all the other and then modified the other. In terms of TV advertisement, it's a bit more complex. Because you have various different models, different by market, different by channel. And then the main difference is how much you need to commit upfront. And so how much flexibility in a way you get in return or loss, in return for better prices and certain allocations and that that is very different by market. And that sometimes, we use your flexibility. And we're trying to come – to factor that in by obviously, not committing exactly what we're planning to spend. But if there are dramatic changes like we had last year in the overall business and it can lead to suboptimal of spending levels, both actually to low and to high depending on where the differences is and which direction of the differences is.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

One last question, fixed costs. You have about right now you are spending about – on pace, you spend about €200 million outside of advertising. How you think about the kind of non-ad cost needs of the business?

<<Axel Hefer, Managing Director & Chief Financial Officer>>

So I mean there's some seasonality in the quarters, because the big buckets in there are obviously personnel and everything is personnel related than external consulting fees and then also created production. And the created production have seasonality because they are expense when you first air them. So there were some seasonality and so that the number because too high. But in general, it's true that we invested significantly in particular into our talents in 2017. And we did that because of what we are planning to do this year, next year and the years to come. And we felt that we needed to invest in particular on the technology and content side. Right now, we think, we have the right team and the right setup and that we don't need to do that again. And so

that's why we said, on the earnings call that, we think that the headcount will be stable – to perhaps slightly up, but no significant change there.

<<Kevin Kopelman, Analyst, Cowen and Company, LLC.>>

Great. With this great, Axel, thanks so much for joining us and thanks everybody for coming to conference.

<<Axel Hefer, Managing Director & Chief Financial Officer>>

Thanks, Kevin.